

The Multi-Manager People's View

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The case for alternative investments

The past ten years in financial markets has seen an enormous hunt for yield, driven by extraordinary policies from central banks. No more can individuals invest in almost riskless cash ISAs or government bonds and achieve an above-inflation level of yield.

With the total amount of negative yielding debt now over a whopping \$15 trillion worth of assets globally, we believe a diversification into alternative income streams is a prudent investment decision over the medium to long term.

In order to meet our investor needs, instead of owning simply more high-yield credit or equities with the correlated risks they possess, we have invested in more longer-term assets, where we think the balance of risk and reward is far more attractive. Many of these assets are more suitable for longer-term capital and are therefore found within investment trusts, albeit listed on the London Stock Exchange.

Key risks

The value of investments and any income from them can go down as well as up and investors may not get back the original amount invested.

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Infrastructure

GCP Infrastructure Ltd (Ticker: GCP)

- IPO date: 22 July 2010
- Multi-Manager People original purchase date: July 2010 (at IPO)
- Dividend yield (30 June 2019 share price): 6.0%

Held in portfolio:		
MM Navigator Distribution	MM Navigator Cautious	MM Navigator Balanced
✓	✓	✓



While governments may have tightened the fiscal purse strings in recent times, their commitment and obligation to maintain society's infrastructure are still mandated to be met. Often the best means for a government is not to own and build assets directly, but to provide subsidies or direct funding to firms, in order to capture private sector efficiencies.

The GCP Infrastructure portfolio invests in the debt, not the equity, of these projects of UK infrastructure assets, which are ultimately backed by the public sector. The projects, often

multi-decade long, often have inflation-linked revenues that are supported by the government, providing an excellent investment opportunity for those with an equally lengthy time horizon.

The current portfolio has over 60% of its assets invested in renewable energy and stands to benefit from continued government support of an increasingly green energy policy, while maintaining over 50% inflation-linkage on its book of assets.

Source: Gravis Capital Management, as at August 2019

Alternative lending

GCP Asset Backed Income (Ticker: GABI)

- IPO date: 17 December 2012
- Multi-Manager People original purchase date: December 2012 (at IPO)
- Dividend yield (30 June 2019 share price): 6.4%

Held in portfolio:		
MM Navigator Distribution	MM Navigator Cautious	MM Navigator Balanced
—	✓	—



If you have also read the [review](#) of our property holdings, you've probably gathered we are relatively large investors with Gravis, formerly GCP. It is a relationship we have built over a number of years; their model of long-term investing, be it through infrastructure investing or student accommodation, is a philosophy very much aligned with our own investment process.

The GCP Asset Backed Income Fund invests in assets that meet structural demands for goods and services, in an area of the market underserved by the banking industry. The group capitalises on its extensive knowledge of the UK infrastructure market but is opportunistic in its deployment of capital. It also invests in property development, where mainstream lenders cannot service for reasons other than credit quality, as well as asset financing, where they are

seen as quick dealmakers, even if their terms are tight and they are not the cheapest on the market.

Last year, we visited the largest loan in the portfolio: London property development Old Oak, owned by The Collective. Its co-living environment model bridges the gap between long-term renting and hotel arrangements for those who value convenience in their hectic city worker or entrepreneurial schedules. Whilst residents have their own bedrooms, they often share kitchens, restaurants, libraries, cinema rooms and laundry rooms. Old Oak has consistently enjoyed above 97% occupancy since it opened in 2016, capitalising on a segment of workers' preference for simple, hassle-free accommodation, and The Collective are soon to open new premises in Canary Wharf and Long Island, New York.

Alternative lending

Pollen Street Secured Lending (Ticker: PSSL)

- IPO date: 30 May 2014
- Multi-Manager People original purchase date: December 2014 (capital raise)
- Dividend yield (30 June 2019 share price): 5.7%

Held in portfolio:		
MM Navigator Distribution	MM Navigator Cautious	MM Navigator Balanced
✓	—	—



Pollen Street Secured Lending originally derived its income through taking stakes in peer-to-peer lending platforms in the UK, US and Europe. However, after the board conducted a review of management arrangements in 2017, the trust's overall control was given to Pollen Street Capital with a more flexible investment strategy but focusing primarily on the UK. The team have managed a similar mandate, Honeycomb Investment Trust, with sector-leading returns since its IPO in 2015.

Pollen's recent name change reflects its focus on underwriting loans originated by platforms, rather than investing in the platforms themselves. We anticipate they will continue to leverage their long-standing relationships with alternative lenders to transition the trust away from legacy assets, and whilst there have been a few bumps in the road, we believe the management team are expertly poised to take advantage of the opportunity set in specialist financing.

Leasing

Amedeo Air Four Plus Ltd (Ticker: AA4)

- IPO date: 13 May 2015
- Multi-Manager People original purchase date: June 2016 (capital raise)
- Dividend yield (30 June 2019 share price): 8.9%

Held in portfolio:		
MM Navigator Distribution	MM Navigator Cautious	MM Navigator Balanced
✓	✓	—



Did you know that 40% of all commercial aircraft globally are not owned by the airlines themselves, but are leased? The lease-based model brings a number of benefits for airlines, such as greater fleet flexibility, efficient capital management and the removal of residual value risk.

Significant growth in air traffic volumes since the 1970s has driven an increase in demand for new aircraft, more recently driven by rising incomes and a growing middle class in emerging markets, specifically Asia. Air travel has proven to be relatively resilient despite various economic and external events, with a long-term annual growth rate of around 5%.

Source: Red Consultancy, as at August 2019

The company currently owns a portfolio of eight Airbus A380, two Boeing B777-300 and four Airbus A350-900 aircraft, all on long-term leases to creditworthy borrowers. Over 50% of the portfolio value is with Dubai state-owned The Emirates Group, with the remaining balance in Abu Dhabi state-owned Etihad Airways and predominately state-owned Thai Airways.

The investments in Amedeo Air Four Plus provides our portfolios with a long-term, predictable income that is uncorrelated with the wider market. New aircraft are leased for a period of 12 years with fixed monthly contracted cash flows, agreed in advance of the purchase with the airlines.

Leasing



SQN Asset Finance Income Ltd (Ticker: SQN)

- IPO date: 14 July 2014
- Multi-Manager People original purchase date: June 2014 (at IPO)
- Dividend yield (30 June 2019 share price): 8.0%

Held in portfolio:		
MM Navigator Distribution	MM Navigator Cautious	MM Navigator Balanced
✓	—	—

From anaerobic digestion plants, submarines, Rolls Royce engines, power heating units for the largest tomato grower in the UK and even a furnace for an IKEA glassware supplier, SQN Asset Finance invest in business-essential, revenue-producing (or cost-saving) equipment, which is leased to companies.

The average transaction size is generally between £5-£15m, with a typical lease term of three to ten years. This keeps the portfolio well diversified and away from interrelated changes in the marketplace. At the end of the agreement, due to the business-critical nature assets, the lessors often extend the lease term or, in some cases, buy the depreciated asset from SQN.

The agreements require the borrower to bear all tax, maintenance, insurance and other costs related to the lease or the operation of the underlying asset. The interest received provides regular cash flow to cover operating expenses and pay dividends to shareholders.

The investments do not come without the occasional issue, but such concerns are built into the business model. The company always own the asset, so in the event of a default can secure it and, if needs be, readily find an alternative home for quick redeployment to ensure income loss is minimised. Portfolio managers Neil Roberts and Jeremiah Silkowski are experts in the field, with a combined experience in the leasing industry of over sixty years.

Pictured: Rolls Royce engines leased to tomato farm. Source: SQN Capital Management (UK) Ltd, as at August 2019

Structured credit



TwentyFour Income Fund Ltd (Ticker: TFIF)

- IPO date: 30 May 2014
- Multi-Manager People original purchase date: December 2014 (capital raise)
- Dividend yield (30 June 2019 share price): 5.7%

Held in portfolio:		
MM Navigator Distribution	MM Navigator Cautious	MM Navigator Balanced
✓	—	—

The broad asset-backed security market is under-owned by the investment community, having been tarred with a toxic brush post-financial crisis.

The situation in Europe, especially in the residential mortgage space, is far different to that of the US, where the borrower has recourse in case of default and, in our eyes, there is a stronger alignment of interest between the structurer and bondholder – structurers have to keep a slice

of the transaction to help prevent against low-quality transactions.

The fund invests in higher-yielding UK and European asset-backed securities. The management team are experienced in the field. And we know them well, having first invested back in 2010. This closed-ended fund is an extension of their existing investment process, where they are taking advantage of the illiquidity premium of the asset class.